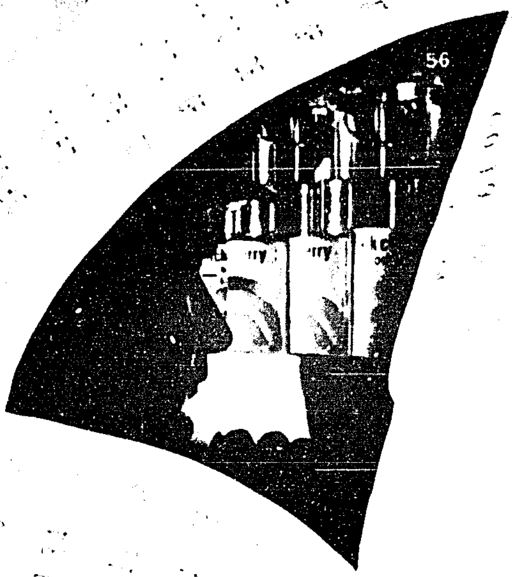
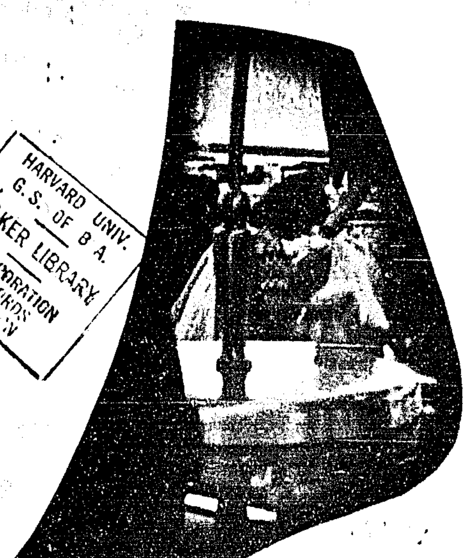
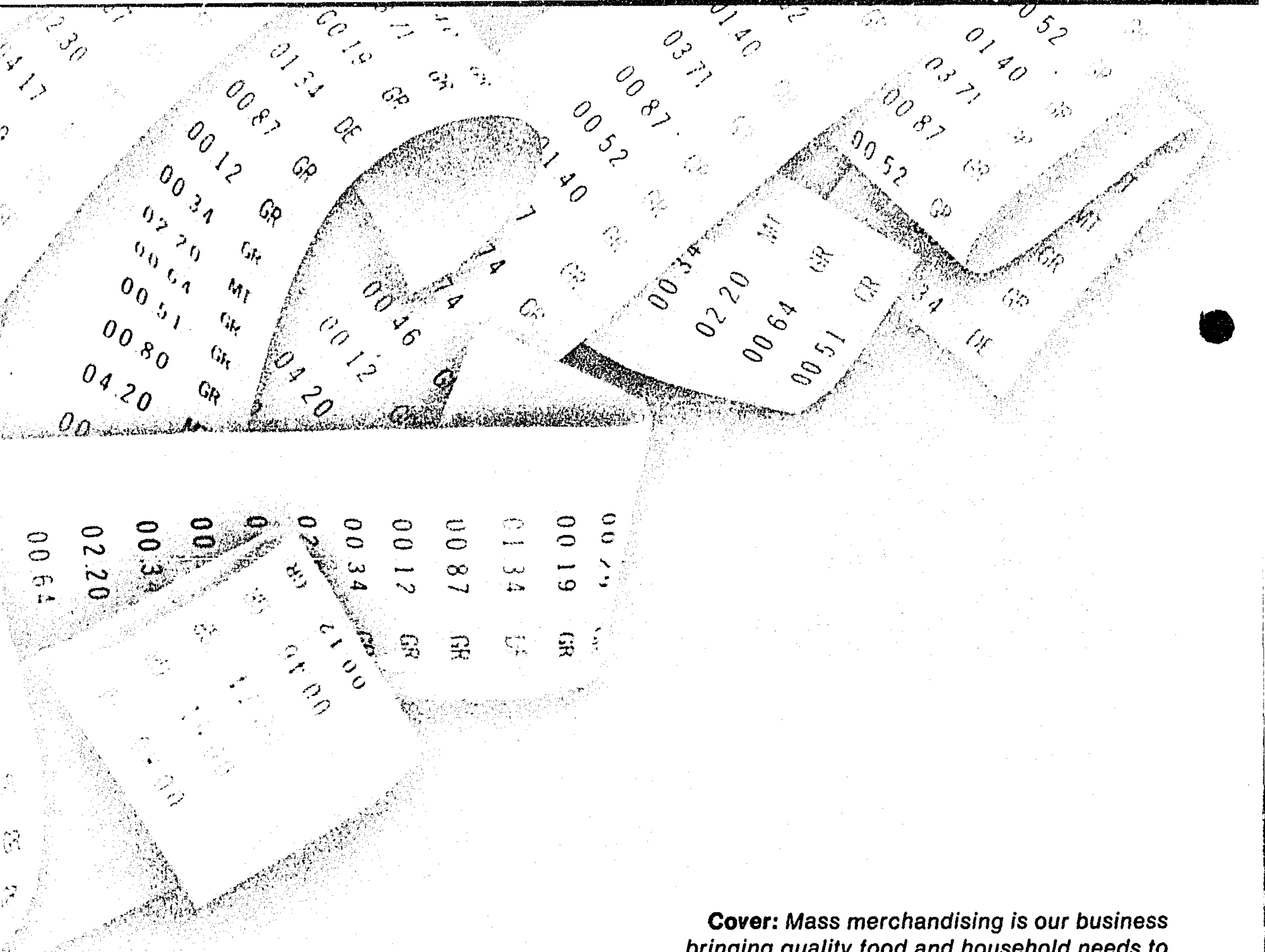
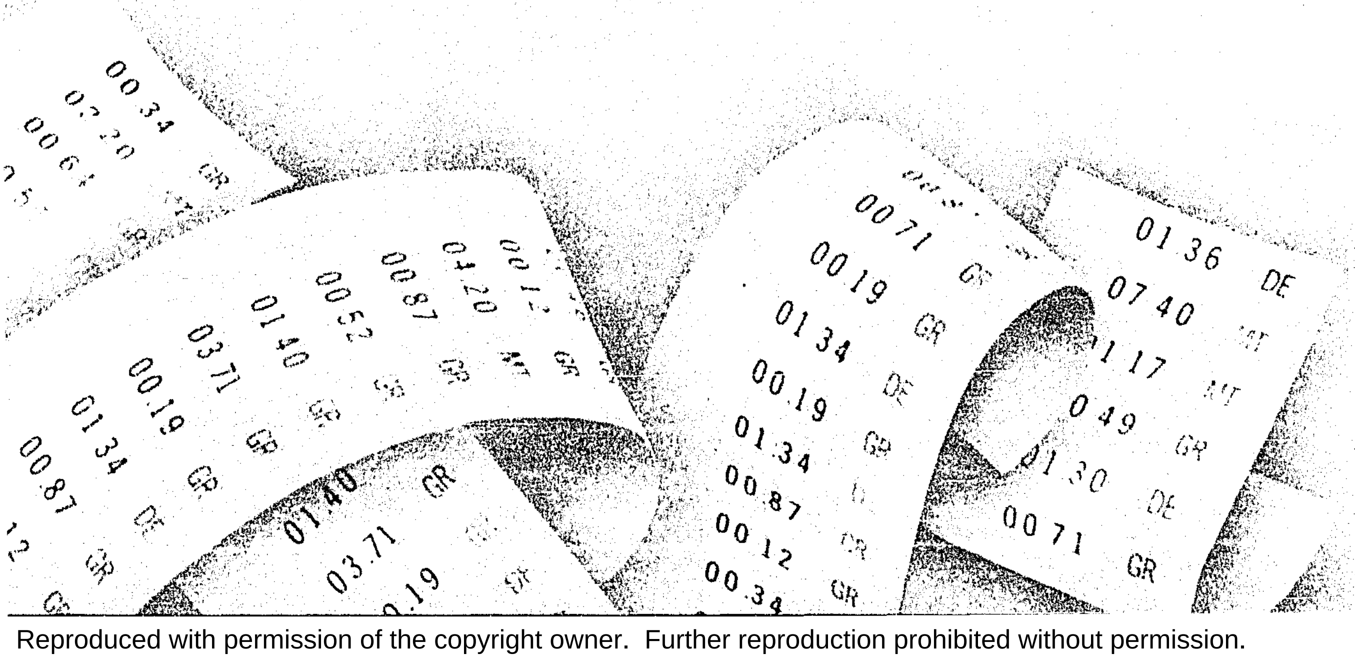
FOOD FAIR STORES, INC. ANNUAL REPORT 1971







Cover: *Mass merchandising is our business . . . bringing quality food and household needs to the consumer conveniently, efficiently and at lowest possible cost. Through the maze of cash register tapes, symbolic of our business, are photos of three major areas of Company operations: supermarkets, department stores, manufacturing.*



For the fiscal year ended July 31, 1971

THE YEAR IN BRIEF

FISCAL YEAR	1971	1970
Sales	$1,828,179,000	$1,762,005,000
Income Before Extraordinary Item	$ 10,850,000*	$ 10,800,000*
Extraordinary Item	$ 548,000	$ 167,000
Net Income	$ 11,398,000*	$ 10,967,000*
Per Share of Common Stock:		
Income Before Extraordinary Item	$ 1.46*	$ 1.47*
Extraordinary Item	$ .07	$ .02
Net Income	$ 1.53*	$ 1.49*
Dividends Paid in Cash:		
Preferred Stock	$ 121,000	$ 126,000
Common Stock	$ 6,537,000	$ 6,519,000
Earnings Retained in the Business	$ 4,741,000*	$ 4,322,000*
Current Assets	$ 260,470,000	$ 238,805,000
Current Liabilities	$ 131,708,000	$ 134,203,000
Working Capital	$ 128,762,000	$ 104,602,000

** Restated to reflect the change in method of accounting for the investment in Food Fair Properties, Inc. (See Note 2 to consolidated financial statements)*

ANNUAL MEETING

The annual meeting of shareholders will be held Tuesday, November 16, 1971, at 2 P.M., local time, in the South Cameo Room of the Bellevue Stratford Hotel, Broad and Walnut Sts., Philadelphia. Shareholders are cordially invited to attend.

EXECUTIVE COMMITTEE

Food Fair Stores is on the threshold of achieving a major milestone . . . $2 billion in annual sales. With this goal almost a reality, the Company has set its sights on new growth targets looking to sales of $3 billion. Responsibility for establishing long-range goals and the broad strategies for their attainment rests with the members of the Executive Committee who are shown on these pages. They, together with the other corporate officers who also appear in this report, bring to the Company many years of broad and varied experience in the dynamic, self-service retail field.

Arthur S. Rosenberg
Senior Vice President

Samuel Friedland
Chairman, Executive Committee

Samuel P. Mandell
Vice President

Myer B. Marcus
Vice Chairman of the Board

Jacob I. Gottlieb
Vice President

Harold Friedland
Vice President

B. F. Lieber
Secretary & Treasurer

TO OUR SHAREHOLDERS

Louis Stein
Chairman of the Board

Jack Friedland
President

In a year that witnessed generally depressed economic conditions, we are pleased to be able to report record sales and higher net income for the fiscal year ended July 31. Sales climbed 9% to $1.93 billion, continuing our unbroken record of year-to-year sales increases. Earnings rose 4% over the preceding fiscal year to $11.4 million, equal to $1.55 a share, compared with $11 million, or $1.49 a share.

In reviewing the income statement, you will note that, although pre-tax earnings were almost $1 million higher than the preceding year, this was counterbalanced by an increased income tax liability of approximately the same amount.

The Company sold $35 million in 25-year sinking fund debentures during the year. Proceeds of the fully-subscribed offering were used to reduce short-term bank loans and other indebtedness. Provisions of the indenture call for the retirement of the debentures in the principal amount of $1,750,000 annually commencing in 1977.

During the last fiscal year, the Company's commitment to discount food merchandising continued unabated. Nearly all of the 23 new supermarkets opened were of the discount type, and, additionally, 65 conventional supermarkets were converted to discounting operations. Today, the great majority of our food stores and by far the major share of supermarket sales come from our discount stores, known as Pantry Pride or Food Fair Quality/Discount.

We have been gratified by the results of our discounting program which was first undertaken some five years ago. Today, a number of our major marketing areas are completely discount and others are scheduled for conversion to discounting in the 1972 fiscal year.

The strong appeal of our food discounting program, coupled with cost controls, produced a profit improvement over the preceding year, along with higher sales.

However, the uncertain economy and concern for the future had a dampening effect on department store sales and profits throughout the country. Our J. M. Fields stores were no exception. They did not contribute the earnings anticipated, based on their performance in recent years.

Lately, there appears to be a resurgence of consumer optimism which has been reflected in department store sales. A continuation of this trend should see a return to achievement of targeted income goals by J. M. Fields.

Our commitment to discount department store merchandising remains strong and we are optimistic about future contributions of this division to the profits of the Company in the short and long run.

We continued to expand our manufacturing operations in the last fiscal year, with the opening of a tea packaging plant and the start of production of our own mayonnaise and salad dressings.

On May 4, Jack Friedland, 46, president of the Company, was named chief executive officer succeeding Louis Stein. Mr. Friedland, who joined the Company 25 years ago, has served as president since 1966.

Mr. Stein, 65, has been named chairman of the Company's finance committee and will continue as chairman of the board. Mr. Stein has been associated with the Company since 1929, serving as legal counsel from 1929 to 1940. He was named president in 1953, and in 1966 succeeded Samuel Friedland, founder of the Company, as chairman and chief executive officer.

S. Robert Silverman, director of distribution, was elected a corporate vice president. Mr. Silverman, who joined the Company two years ago, has 20 years' experience in warehousing and transportation. Also named a corporate vice president was Stanley E. Zimmerman, director of development. Formerly corporate secretary and legal counsel for the W. T. Grant Company, Mr. Zimmerman will be responsible for real estate, construction and legal administration.

Although it is still too early to assess the success of President Nixon's wage-price policies in controlling inflation, experienced analysts are cautiously optimistic about the economic outlook for the current fiscal year.

In the current fiscal year, we shall continue our program of converting supermarkets to discounting operations, while opening approximately 25 new food markets and ten to twelve department stores.

With the restoration of a more stable economy, we believe the current year will produce higher earnings, along with the attainment of $2 billion in annual sales.

Sincerely,

Louis Stein

Louis Stein,
Chairman

Jack Friedland

Jack Friedland,
President

October 27, 1971.

Harry Pripstein
Vice President

Herman R. Silver
Vice President

J. Arvid Jonsson
Vice President

Joseph H. Rash
Vice President

S. Robert Silverman
Vice President

David T. Friedland
Vice President

Corporate vice presidents shown here have responsibility for major functional areas. Herman R. Silver, Meat Operations; David T. Friedland, Store Operations; Harry Pripstein, Grocery Buying & Merchandising; Joseph H. Rash, Maryland-Virginia Operations; J. Arvid Jonsson, Industrial Relations; Seymour G. Mandell, Produce Operations; S. Robert Silverman, Distribution, and Stanley E. Zimmerman, Development.

Seymour G. Mandell
Vice President

Stanley E. Zimmerman
Vice President


EXIT
JUDGE
OPEN TIL

SUPERMARKET OPERATIONS

Twenty-three new food markets were opened during the year, 65 existing markets were converted to discounting operations and 34 outmoded stores were closed. At fiscal year end, there were 545 supermarkets in operation, 11 fewer than the year before. However, total food store sales continued to climb even with fewer stores, thanks to excellent consumer response to our discount merchandising program.

The trend to larger supermarkets continues. Those planned in the coming months average 30,000 to 35,000 square feet overall with some 25,000 square feet of sales area. These larger units offer a greater variety of food items, as well as expanded lines of non-foods, including housewares and health and beauty aids.

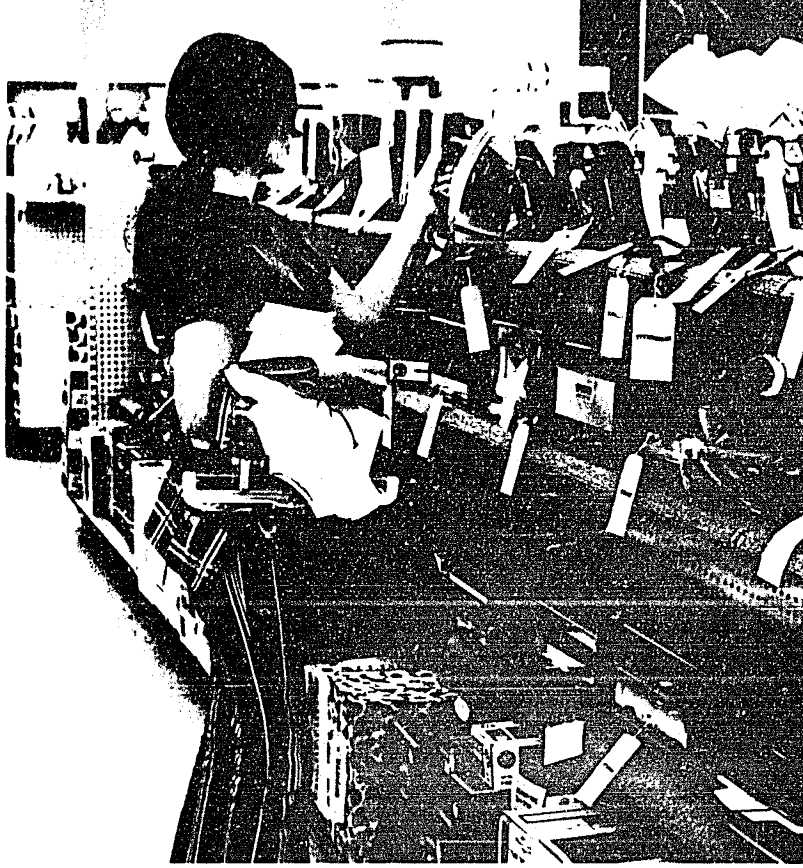
In a continuing effort to improve efficiency, computers and electronic communication are being more fully utilized to shorten the time span between order and delivery of merchandise to stores, to reduce inventory at stores and warehouses and to schedule personnel for greater productivity. Although much progress has been made, we are exploring many additional opportunities to improve operational efficiency through more sophisticated use of these tools.

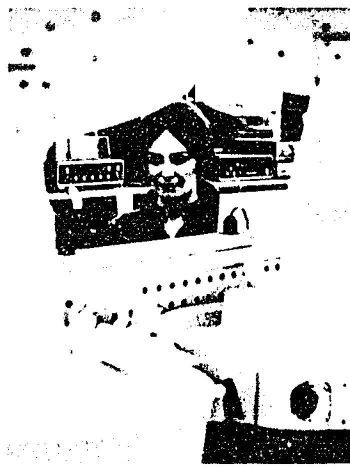
Substantial expenditures have been made for the purchase of new materials handling equipment used in our distribution centers and for new tractors and trailers, which will help to reduce operating costs.

In the field of sales promotion, television is being extensively used in several of our marketing areas to carry the message of Pantry Pride's low price policy. Television commercials complement newspaper advertising, which has long been the supermarkets' basic advertising medium. Continuing studies are made of advertising media in order to achieve maximum results from advertising expenditures.

The training and further development of management personnel continues on a year-round basis. Programs in this area include on-the-job seminars, attendance at professional management association conferences, home-study courses and college studies on off-duty hours, subsidized by the Company. Last year, some 300 operational supervisors participated in an eight-session on-the-job seminar covering the principles of management. A new seminar series on sanitation and the supermarket is planned.

During the year, four divisional vice presidents were named. All are veteran employees who have come up through the ranks. They are Jack Millman, Pacific Division; Herbert Zandler, Philadelphia Division; Frank N. James, Jacksonville Division, and Herbert Carlis, Baltimore Division. With these appointments, each of our supermarket divisions now has a divisional vice president at its head.





DEPARTMENT STORE OPERATIONS

J. M. Fields continued to expand its operations with the opening of six new discount department stores during the fiscal year, doubling the number opened the preceding year. New stores were opened last year in Concord, New Hampshire; Leesburg and Hallandale, Florida; Schenectady, New York; Bensalem Township, Pennsylvania, and Charleston, South Carolina. A number of existing units have also been expanded and modernized, including stores in Stratford, New Jersey, and Daytona, Florida.

The new stores are in the 100,000-square-foot range and offer a wide variety of products including housewares, hardware, clothing, shoes, soft goods, small and major appliances, sporting goods, toys, giftware, photographic equipment and health and beauty aids.

Operating at lower gross profit margins than conventional department stores, J. M. Fields can offer quality merchandise at lower prices. The stores are primarily cash-and-carry, although credit is available to shoppers through J. M. Fields credit card system, as well as two nationwide bank credit cards.

In most instances, a Pantry Pride or Food Fair supermarket is part of or adjacent to a J. M. Fields store. This is true in the case of 40 of the 69 J. M. Fields stores in operation at fiscal year end.

While department store sales and earnings were generally slowed by the economy last year, an improvement in both areas is anticipated. Ten to twelve new J. M. Fields stores are scheduled in fiscal 1972.

FOOD MANUFACTURING AND PROCESSING

In an expansion of its manufacturing and processing operations, the Company began the packaging of tea and the manufacture of mayonnaise and salad dressing at separate facilities in Philadelphia. Other manufacturing and processing operations of the Company include slaughterhouses, baking facilities, a coffee roasting plant, a beverage plant, and pretzel, potato chip and peanut butter manufacturing facilities.

BLUE GRASS FOOD SERVICES

The Company last year entered the field of institutional purveying and in-plant industrial feeding through the organization with Horn & Hardart Baking Company of Philadelphia, of Blue Grass Services Corp., in which the Company holds a 70% stock interest. Blue Grass operates from a modern 450,000 square-foot bakery-commissary facility in Philadelphia which it has leased. Blue Grass is also involved in the preparation of fresh and frozen foods for sale in retail outlets and for institutional use.

LEASED SHOE DEPARTMENTS

The Company operates leased shoe departments in 86 retail outlets throughout the United States, including departments in J. M. Fields stores. It is also involved in the wholesale distribution of footwear through franchised jobbers.

WASHINGTON SQUARE LIFE INSURANCE COMPANY

This wholly-owned subsidiary set new records for insurance written and insurance in force in the last fiscal year. Now licensed to sell insurance in seven states, Washington Square specializes in the mass marketing of insurance and other benefit programs on a payroll deduction basis, through its own agents and independent insurance brokers. Agreements have been made with other life insurance companies to market Washington Square's programs in many of the industrial states throughout the country.

MGS INCENTIVES COMPANY

This subsidiary, an outgrowth of Merchants Green Trading Stamp Company, is a growing force in the incentive and premium field. MGS Incentives develops incentive programs for a number of industrial organizations throughout the country, and supplies the materials and premiums used for the sales promotion programs carried on by these companies.

FOOD FAIR PROPERTIES

Food Fair Properties, Inc., in which the Company has a 40% interest, continued to make excellent progress. In its last fiscal year, Properties set new records for total income, rental income, cash flow and net income. Net income rose 30% from the preceding year to $1,313,000.

This year, for the first time, the Company's share of Properties' earnings is consolidated in Food Fair Stores income. This is in conformance with a recent Accounting Principles Board opinion.

Properties is the nation's largest publicly-held shopping center development company, presently operating 47 shopping centers and 36 free-standing commercial properties with total gross leasable area of 8,700,000 square feet. In addition, it is the principal developer of the $55 million urban renewal project in Newark, N. J., known as Gateway.

The major components of Gateway, already completed, are a 28-story, 500,000-square-foot office building and the 10-story, 260-room Downtowner Motor Inn. Under construction and scheduled for partial occupancy late in 1971 is an 18-story, 835,000-square-foot office building which will serve as a regional headquarters for Western Electric. The Gateway complex will be linked with Penn Central's Newark station by an enclosed pedestrian walkway above street traffic.

STATISTICAL SUMMARY

Food Fair Stores, Inc. and Subsidiaries

(all dollar figures are in thousands)

Year Ended	Stores at Year-End	Sales	Net Income** (Note)	Cash Dividends	Earnings Retained (Note)
July 31, 1971	**614**	**$1,928,179**	**$11,399**	**$6,658**	**$4,741**
Aug. 1, 1970	621	1,762,005	10,967	6,645	4,322
May 3, 1969*	633	1,555,431	12,267	6,602	5,665
April 27, 1968	620	1,371,781	10,932	6,595	4,337
April 29, 1967	630	1,296,621	12,134	6,606	5,528
April 30, 1966	615	1,204,520	12,633	6,573	6,060
May 1, 1965	587	1,119,640	9,362	6,516	2,846
May 2, 1964*	577	1,105,394	10,077	6,507	3,570
April 27, 1963	551	1,003,344	10,393	6,500	3,893
April 28, 1962	504	923,224	11,154	6,279	4,875

*53 weeks

**Includes Extraordinary Items of $549,000 in 1971, $167,000 in 1970, $680,000 in 1969, $61,000 in 1968, $2,730,000 in 1967, $2,046,000 in 1966, $482,000 in 1965 and $2,678,000 in 1964.

Note: Restated to reflect the change in method of accounting for the investment in Food Fair Properties, Inc. (See Note 2 to consolidated financial statements.)

Consolidated Statement of

FINANCIAL CONDITION

Food Fair Stores, Inc. and Subsidiaries

July 31, 1971 and August 1, 1970

ASSETS	1971	1970 (Restated, Note 2)
Current assets:		
Cash	$ 16,033,000	$ 18,765,000
Marketable securities, at cost	487,000	461,000
Accounts receivable, net of allowance for doubtful accounts: 1971, $1,026,000; 1970, $559,000	58,028,000	54,059,000
Inventories, at lower of cost (first-in, first-out or average) or market	173,123,000	151,130,000
Prepaid expenses	10,043,000	9,714,000
Real estate in the process of development and sale, net of payments received on account; 1971, $7,475,000; 1970, $6,250,000	2,756,000	4,676,000
Total current assets	260,470,000	238,805,000
Investments:		
Affiliates, at equity in net assets:		
Food Fair Properties, Inc. (Note 2)	8,355,000	7,876,000
Other subsidiaries (Note 1)	3,529,000	3,279,000
Other, at cost	1,824,000	2,787,000
	13,708,000	13,942,000
Property, plant and equipment, at cost:		
Land	12,731,000	12,509,000
Buildings and improvements	53,103,000	48,028,000
Fixtures and equipment	133,470,000	121,004,000
	199,304,000	181,541,000
Less accumulated depreciation	80,005,000	74,438,000
	119,299,000	107,103,000
Other assets:		
Prepaid expenses, not current	7,006,000	5,200,000
Miscellaneous	4,493,000	2,054,000
	11,499,000	7,254,000
	$404,976,000	$367,104,000

LIABILITIES AND SHAREHOLDERS' EQUITY	1971	1970 (Restated, Note 2)
Current liabilities:		
Notes payable	$ 16,135,000	$ 34,735,000
Current portion of long-term debt (Note 3)	3,156,000	2,469,000
Accounts payable	75,498,000	64,181,000
Accrued salaries and expenses	31,843,000	28,918,000
Federal and state income taxes	5,076,000	3,900,000
Total current liabilities	131,708,000	134,203,000
Long-term debt, net of current portion (Note 3)	121,528,000	87,347,000
Liability for redemption of trading stamps, less portion included in accrued expenses	1,225,000	1,425,000
Deferred Federal income taxes	9,995,000	8,724,000
Minority interest in subsidiaries	483,000	—
Shareholders' equity:		
Preferred stock (Note 4)	2,836,000	3,012,000
Common stock (Note 5)	7,263,000	7,263,000
Capital in excess of par (Note 6)	47,425,000	47,358,000
Retained earnings (Note 3)	82,513,000	77,772,000
	140,037,000	135,405,000
	$404,976,000	$367,104,000

See notes to consolidated financial statements.

Consolidated Statement of

INCOME

Food Fair Stores, Inc. and Subsidiaries

Fifty-two weeks ended July 31, 1971 and August 1, 1970

	1971	1970 (Restated, Note 2)
Sales	**$1,928,179,000**	$1,762,005,000
Cost of sales	**1,550,901,000**	1,419,120,000
Gross profit	**377,278,000**	342,885,000
Operating expenses	**350,425,000**	317,626,000
Income from operations	**26,853,000**	25,259,000
Income from nonconsolidated subsidiaries	**717,000**	968,000
Other income	**990,000**	839,000
Income before interest expense	**28,560,000**	27,066,000
Interest expense	**8,231,000**	7,616,000
Income before income taxes, minority interest and extraordinary item	**20,329,000**	19,450,000
Income taxes (Note 7)	**9,578,000**	8,650,000
Income before minority interest and extraordinary item	**10,751,000**	10,800,000
Minority interest in net loss of subsidiaries	**99,000**	—
Income before extraordinary item	**10,850,000**	10,800,000
Extraordinary item, tax benefit of loss carryover	**549,000**	167,000
Net income	**$ 11,399,000**	$ 10,967,000
Income per share of common stock (Note 8):		
Before extraordinary item	**$1.48**	$1.47
Extraordinary item	**.07**	.02
Net income	**$1.55**	$1.49

See notes to consolidated financial statements.

Consolidated Statement of

RETAINED EARNINGS

Food Fair Stores, Inc. and Subsidiaries

Fifty-two weeks ended July 31, 1971 and August 1, 1970

	1971	1970
Retained earnings, beginning of period as restated (Note 2)	**$77,772,000**	$73,450,000
Net income for the fifty-two weeks	**11,399,000**	10,967,000
	89,171,000	84,417,000
Deduct cash dividends:		
Preferred stock	**121,000**	126,000
Common stock	**6,537,000**	6,519,000
	6,658,000	6,645,000
Retained earnings, end of period	**$82,513,000**	$77,772,000

See notes to consolidated financial statements.

Consolidated Statement of

CHANGES IN FINANCIAL POSITION

Food Fair Stores, Inc. and Subsidiaries

Fifty-Two Weeks Ended July 31, 1971 and August 1, 1970

	1971	1970 (Restated, Note 2)
Source of funds:		
Income before extraordinary item	$10,850,000	$10,800,000
Add items not providing nor requiring outlays of working capital:		
Depreciation (straight-line method)	15,814,000	14,167,000
Amortization of other assets	270,000	152,000
Increase in deferred income taxes	1,271,000	578,000
Gain on sales of noncurrent assets	(1,369,000)	(755,000)
Undistributed earnings of unconsolidated subsidiaries	(717,000)	(968,000)
Working capital provided from operations	26,119,000	23,974,000
Working capital provided by extraordinary item	549,000	167,000
Sale of property, plant and equipment	8,617,000	7,426,000
Issuance of long-term debt	39,334,000	31,585,000
Issuance of common stock	—	852,000
	$74,619,000	$64,004,000
Application of funds:		
Purchase of property, plant and equipment	$35,254,000	$27,729,000
Goodwill acquired	1,839,000	—
Repayment of long-term debt	5,153,000	19,509,000
Payment of cash dividends	6,658,000	6,645,000
Other items	1,555,000	549,000
Increase in working capital	24,160,000	9,572,000
	$74,619,000	$64,004,000
Summary of net change in working capital:		
Increase (decrease) in current assets:		
Cash	($ 2,732,000)	$ 2,512,000
Marketable securities	26,000	(17,000)
Accounts receivable	3,969,000	7,674,000
Inventories	21,993,000	19,748,000
Prepaid expenses	329,000	2,031,000
Real estate in the process of development and sale, net	(1,920,000)	1,561,000
	21,665,000	33,509,000
Decrease (increase) in current liabilities:		
Notes payable	18,600,000	588,000
Current portion of long-term debt	(687,000)	280,000
Accounts payable	(11,317,000)	(24,522,000)
Accrued salaries and expenses	(2,925,000)	(861,000)
Federal and state income taxes	(1,176,000)	578,000
	2,495,000	(23,937,000)
Increase in working capital	$24,160,000	$ 9,572,000

See notes to consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

Fifty-two Weeks Ended July 31, 1971

1. The consolidated financial statements include the accounts of the Company, its wholly owned Subsidiaries and its majority owned Subsidiaries, except its wholly owned life insurance company.

Investments in the life insurance company and in 50% owned companies are stated in the Company's equity in net assets.

The accounts of majority-held foreign Subsidiaries are consolidated for the year ended July 31, 1971. These companies were previously reported on the equity method. The effect of this change is not material.

2. In the year ended July 31, 1971, the Company changed its method of accounting for its investment in Food Fair Properties, Inc. from the cost, to the equity method, in accordance with Opinion No. 18 of the Accounting Principles Board. Under the new method, the investment is carried at cost plus equity in undistributed earnings since dates of acquisition. As a result of this change, net earnings of the Company for the years ended in 1971 and 1970, capital in excess of par and retained earnings at the beginning of these years were increased by the following amounts:

	1971	1970
Net earnings ($.06 and $.04, per share, respectively)	$ 444,000	$ 331,000
Capital in excess of par	2,407,000	2,407,000
Retained earnings	1,137,000	806,000

Financial statements for the year ended August 1, 1970 have been restated to reflect the change.

The Company owns all of the preferred stock and 40% of the common stock of Food Fair Properties, Inc. At July 31, 1971, the aggregate value of this preferred stock was $2,000,000 and the aggregate market value of this common stock was $13,333,000, based on a quoted bid price of $4 per share.

The consolidated financial statements of Food Fair Properties, Inc. and its Subsidiaries are as follows:

(000 omitted)		
Consolidated financial position	December 31, 1970	1969
Assets		
Investment in property and equipment at cost, net of depreciation	$166,624	$134,551
Other	8,952	8,613
	$175,576	$143,164
Liabilities		
Notes, mortgages and debentures payable	$104,305	$102,022
Construction loans payable	38,075	13,996
Other	15,360	10,505
	157,740	126,523
Shareholders' equity	17,836	16,641
	$175,576	$143,164

(000 omitted, except per share amounts) Years ended December 31,		
Consolidated statement of income	1970	1969
Income	$18,301	$15,951
Net expenses	15,866	13,963
Income before income taxes	2,435	1,988
Income taxes	1,122	978
Net income	$ 1,313	$ 1,010
Earnings per common share and common share equivalent	$.14	$.11

3. Long-term debt at July 31, 1971 is as follows:

	Rate	Due within one year	Due after one year	Final maturity
Notes, banks	5-8.5%	$2,473,000	$ 28,294,000	1972-1976
Notes, other	4-8.5%	293,000	1,317,000	1972-1984
Mortgages	0-10%	390,000	4,135,000	1973-1995
Sinking fund debentures	3.375%	—	9,090,000	1974
Convertible subordinated notes	4%	—	2,400,000	1977
Subordinated debentures, net of bonds in treasury of $466,000	4%	—	16,292,000	1979
Subordinated notes	8.5%	—	25,000,000	1984
Sinking fund debentures	8.375%	—	35,000,000	1996
		$3,156,000	$121,528,000	

Sinking fund debentures (3.375%) require semi-annual sinking fund payments of $500,000 through March 1, 1974. The sinking fund requirements for the year ending July 29, 1972 have been anticipated.

Convertible subordinated notes (4%) are convertible into common stock at $25 per share through May 12, 1977. These notes require annual principal payments of $480,000 beginning May 12, 1973.

Subordinated debentures (4%) require annual sinking fund payments of $967,000. The sinking fund requirements for the year ending July 29, 1972 have been anticipated.

Subordinated notes (8.5%) require annual payments of $2,000,000 beginning December 1, 1974.

Sinking fund debentures (8.375%) require annual sinking fund payments of $1,750,000 commencing January 15, 1977.

The indentures covering the issuance of the debentures and notes described above contain restrictions as to the payment of cash dividends and the redemption of shares of stock of the Company. The maximum amount of retained earnings so restricted at July 31, 1971 was $53,630,000.

4. Preferred stock is $4.20 cumulative, $15 par; 108,190 shares are authorized, of which 28,358 are issued and outstanding. The Company is obligated to set aside $120,000 semi-annually as a sinking fund for the redemption of the preferred stock, which may be called for this purpose at $100 per share plus accrued dividends.

5. Common stock is $1 par; 10,000,000 shares are authorized, of which 7,263,955 are issued, 1,000 are held in the Company's treasury and 7,262,955 are outstanding.

At July 31, 1971, options were outstanding to purchase 25,000 shares of common stock at $22 per share expiring April 16, 1974 and 61,000 shares of common stock at $17.63 per share expiring July 6, 1976.

At July 31, 1971, warrants to purchase 400,000 shares of common stock were outstanding. These warrants are exercisable at $24 per share and expire December 17, 1979.

6. During the year ended July 31, 1971, capital in excess of par increased by $67,000 representing the excess of stated value over cost of 1,764 shares of cumulative preferred stock retired.

7. Income taxes are comprised of the following:

	Fifty-two weeks ended July 31, 1971	Fifty-two weeks ended August 1, 1970
Federal:		
Current	$6,449,000	$7,239,000
Investment credit	(280,000)	(609,000)
Deferred	2,266,000	1,108,000
State	1,143,000	912,000
	$9,578,000	$8,650,000

8. Income per share of common stock is based on weighted average number of shares outstanding during the years. Options, warrants and convertible subordinated notes have no dilutive effect.

9. As a result of its examination of the companies' Federal income tax returns for the years ended April 30, 1963 and 1964, the Internal Revenue Service has proposed deficiencies in tax, which the companies are protesting. In the opinion of management, based on advice of tax counsel, the final net additional tax, will not have a material effect on shareholders' equity.

10. A subsidiary of the Company and other retailers operating in the State of Florida are defendants in a class action attacking certain credit and billing practices. The relief requested includes refunds of finance charges and principal balances collected since 1968, penalties and costs. The ultimate liability, if any, to the Company is not presently determinable. In the opinion of management, based on the advice of counsel, the final disposition of this matter will not have a material effect on the business or financial position of the Company.

11. The Company rents the majority of the premises occupied. At July 31, 1971, the minimum annual rental for such premises amounted to approximately $33,000,000 plus, in some instances, certain taxes, insurance and other expenses.

LAVENTHOL KREKSTEIN HORWATH & HORWATH

CERTIFIED PUBLIC ACCOUNTANTS

1845 WALNUT STREET
PHILADELPHIA PA 19103
215 491 1700

OFFICES THROUGHOUT THE WORLD

To the Board of Directors and Shareholders
Food Fair Stores, Inc.

We have examined the consolidated statement of financial condition of Food Fair Stores, Inc. and Subsidiaries as at July 31, 1971 and the related consolidated statements of income, retained earnings and changes in financial position for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the financial statements of the Company and Subsidiaries for the fifty-two weeks ended August 1, 1970.

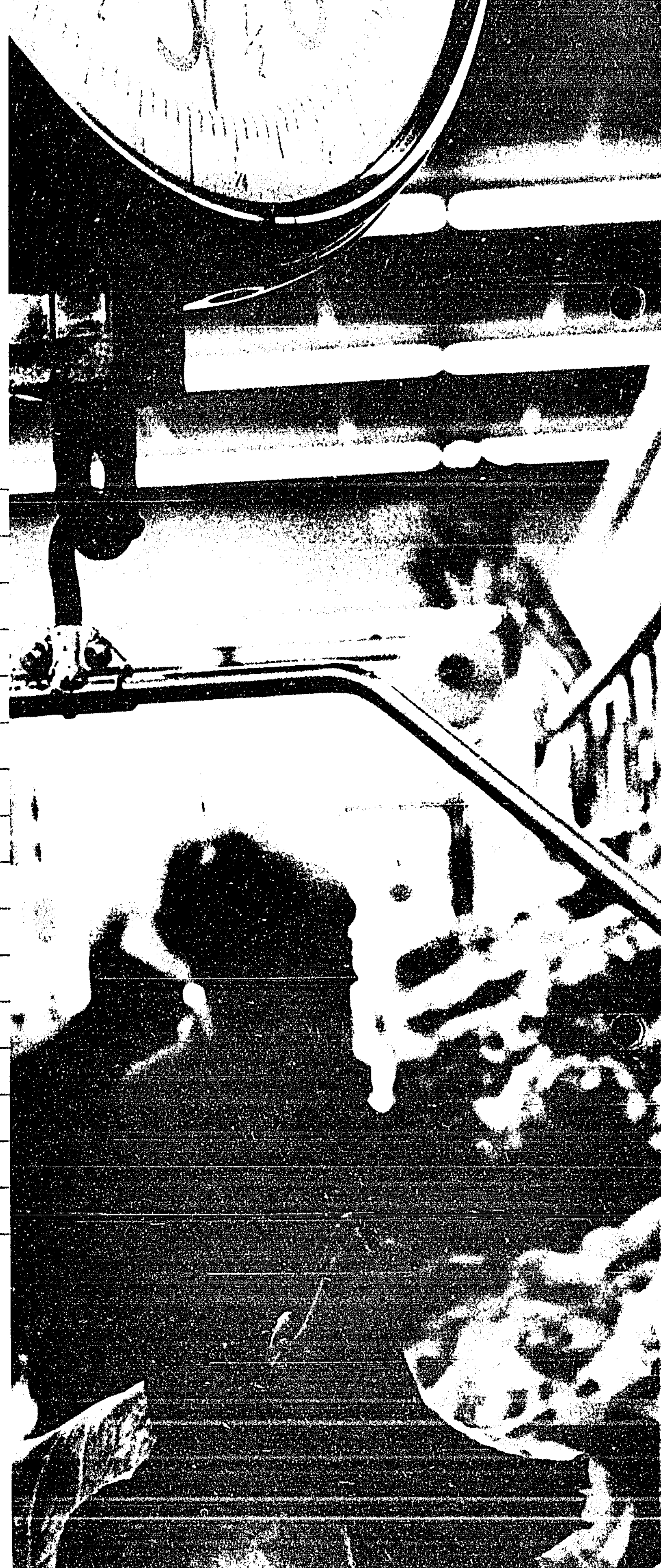
In our opinion, the consolidated financial statements referred to above present fairly the financial position of Food Fair Stores, Inc. and Subsidiaries at July 31, 1971 and August 1, 1970, and the results of their operations and changes in financial position for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change, which we approve, in method of accounting for investment in Food Fair Properties, Inc. as described in Note 2 to the consolidated financial statements.

Laventhol Krekstein Horwath & Horwath

October 5, 1971

FOOD FAIR STORES, INC.
as of July 31, 1971

STATE	FOOD UNITS	DEPARTMENT STORES
CALIFORNIA	41	—
CONNECTICUT	21	3
DELAWARE	9	—
FLORIDA	158	26
GEORGIA	7	3
MARYLAND	49	—
MASSACHUSETTS	—	8
NEVADA	10	—
NEW HAMPSHIRE	—	5
NEW JERSEY	76	6
NEW YORK	65	8
NORTH CAROLINA	—	1
PENNSYLVANIA	85	2
RHODE ISLAND	1	—
SOUTH CAROLINA	3	5
VIRGINIA	20	2
TOTAL	545	69



DIRECTORS

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Partner, Eastman Dillon, Union Securities & Co.

WILLIAM P. DAVIS, III
Vice Chairman
The First Pennsylvania Banking & Trust Co.

GEORGE FRIEDLAND
Former Vice Chairman and President

HAROLD FRIEDLAND
Vice President

JACK FRIEDLAND
President

SAMUEL FRIEDLAND
Chairman of the Executive Committee

HESS KLINE
Former Vice President and Treasurer

SAMUEL P. MANDELL
Vice President

MYER B. MARCUS
Vice Chairman of the Board

ARTHUR S. ROSENBERG
Senior Vice President

HERMAN R. SILVER
Vice President

LOUIS STEIN
Chairman of the Board

W. PAUL STILLMAN
Chairman
The First National State Bank of New Jersey

EXECUTIVE OFFICES
3175 John F. Kennedy Blvd., Philadelphia, Penna. 19101

GENERAL COUNSEL
Stein & Rosen, New York, New York

TRANSFER AGENT
Registrar & Transfer Company, New York, New York

REGISTRAR
The Chase Manhattan Bank N. A., New York, New York

CERTIFIED PUBLIC ACCOUNTANTS
Laventhol Krekstein Horwath & Horwath, Philadelphia, Penna.

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Chairman of the Finance Committee

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Vice Chairman of the Board

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Chief Executive Officer

ARTHUR S. ROSENBERG
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Director of Store Operations

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Director of Buying and Merchandising

JACOB I. GOTTLIEB
Vice President
President, J. M. Fields, Inc.

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Vice President
Director of Distribution

STANLEY E. ZIMMERMAN
Vice President
Director of Development

B. F. LIEBER
Secretary and Treasurer

LEO DICANDILO
Assistant Secretary

SAMUEL FORMAN
Assistant Secretary

EDMOND O'NEILL
Assistant Secretary

LEONARD STUBINS
Assistant Secretary

Food Fair Stores, Inc. common stock is fully listed on the New York, Pacific Coast, and Philadelphia-Baltimore-Washington stock exchanges.